COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 29, 2001

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION CASE NO. PUE980813

Ex Parte: In the matter of
considering an electricity
retail access pilot program –
Virginia Electric and Power Company

and

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY CASE NO. PUE000585

To revise its fuel factor
pursuant to § 56-249.6 of the
Code of Virginia

FINAL ORDER

HISTORY OF CASE NO. PUE000585

On November 17, 2000, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed with the State Corporation Commission ("Commission") an application, testimony, and exhibits requesting an increase in its fuel factor from 1.339¢ per kWh to 1.613¢ per kWh effective with usage on and after January 1, 2001. On December 8, 2000, the Commission issued the Order Establishing 2001 Fuel Factor Proceeding that docketed the matter as Case No. PUE000585 and scheduled a hearing for April 3, 2001.[1] The Commission permitted the Company to implement, on an interim basis, its proposed fuel factor effective January 1, 2001.

In its Order Establishing 2001 Fuel Factor Proceeding in Case No. PUE000585, the Commission indicated that, in addition to the issues that normally arise in a fuel factor case, we would consider two issues outstanding from Virginia Power's most recent fuel factor case, Case No. PUE990717. First, in the Final Order in Case No. PUE990717, the Commission had directed Commission Staff to investigate methods of quantifying fuel costs properly attributable to the Chaparral (Virginia) Inc. ("Chaparral") special contract ("Special Contract"),[2] and to file a report on its findings and recommendations for consideration in the Company's next fuel factor case.[3] On July 12, 2000, the Commission Staff filed the Chaparral Special Contract Fuel Factor Impact Monitoring Study ("Chaparral Study") recommending

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[1] The hearing in Case No. PUE000585 was originally scheduled for March 1, 2001. On February 12, 2001, the Commission issued an Order Granting Motion and Rescheduling Hearing setting the hearing for the purpose of receiving evidence related to the establishment of Virginia Power's fuel factor for April 3, 2001, and revising the associated procedural schedule. A hearing was held on March 1, 2001, for the sole purpose of receiving statements from public witnesses who wished to comment on Virginia Power's proposed fuel factor. No public witnesses appeared at the March 1, 2001, hearing.

[2] Application of Virginia Electric and Power Company, For approval of a special rate contract pursuant to § 56-235.2 of the Code of Virginia, Case No. PUE980333, 1999 S.C.C. Ann. Repts. 419 (January 26, 1999).

[3] Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Va. Code § 56-249.6, Case No. PUE990717, Doc. Cont. Ctr. No. 000340515, Final Order (March 28, 2000).

that the Company use a back-cast run of its production simulation model to determine fuel expenses associated with serving the Chaparral load for purposes of the fuel factor.[4]

Second, the Final Order in Case No. PUE990717 provided that Virginia Power may retain 100% of the margins that result from the sale of capacity and energy freed-up by departure of retail customers who choose an alternative generation supplier ("Displaced Pilot Sales") through the Company's pilot program for electric retail access ("Pilot Program"). The Commission required Commission Staff to propose a method for identifying those Displaced Pilot Sales and associated margins, and to file a report on its findings and recommendations for consideration in the Company's next fuel factor case. On August 29, 2000, the Commission Staff filed a report, Fuel Accounting for Sales Displaced in Retail Access Pilot ("Displaced Pilot Sales Report"), proposing a method to separate margins attributable to Displaced Pilot Sales to allow for accurate fuel factor determination consistent with the Company's Definitional Framework of Fuel Expenses ("Definitional Framework").[5]

The Virginia Committee for Fair Utility Rates ("VCFUR") filed a Notice of Protest and Protest in Case No. PUE000585 on

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[4] On September 11, 2000, Virginia Power filed comments on the Chaparral Study. Also on September 11, 2000, Chaparral filed a Notice of Protest and Protest in the matter.

[5] On October 10, 2000, Virginia Power filed comments on Staff's analysis.

November 27, 2000, and January 19, 2001, respectively. On December 27, 2000, the Division of Consumer Counsel, Office of the Attorney General ("OAG") filed a notice stating that it intended to participate in the matter. Chaparral filed a Notice of Protest on January 18, 2001. The VCFUR, OAG, and Chaparral did not file any prepared testimony and exhibits to be presented at the hearing. No other Notices of Protest or Protests were filed.[6]

On March 19, 2001, Commission Staff filed direct testimony addressing the reasonableness of Virginia Power's estimated costs and proposed fuel factor, the two issues outstanding from Case No. PUE990717, and the impacts of Virginia Power's off-system sales, options trading operations on the Company's ratepayers. On March 28, 2001, Virginia Power filed testimony rebutting the direct prefiled testimony of Staff which addressed issues unique to Case No. PUE000585, and adopted the Company's comments on the Chaparral Study and the Displaced Pilot Sales Report filed in Case No. PUE990717.

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[6] On February 8, 2001, the Commission received a letter and a request to schedule a hearing in Prince William County from a member of the Prince William Board of County Supervisors. On March 5, 2001, the Commission received a copy of a Resolution and accompanying materials, including a copy of the aforementioned letter, from the Prince William Board of County Supervisors objecting to the fuel rate increase. On March 15, 2001, the Commission issued an order declining to schedule a hearing in Prince William County, stating that the fuel factor was an issue with broad impact on Virginia Power's service territory, and that a public evidentiary hearing to consider the increase was scheduled for April 3, 2001, in the Commission's courtroom in Richmond, a generally centralized location.

HISTORY OF CASE NO. PUE980813

On December 1, 2000, Virginia Power filed with the Commission in Case No. PUE980813, the case implementing the Pilot Program and the collection of wires charges, an application for an increase in wires charges corresponding to any increase in the fuel factor approved in Case No. PUE000585 effective January 1, 2001. On December 28, 2000, the Commission issued an order requiring the Company to publish notice of its request, and permitting interested persons to file comments or requests for a hearing on the application.

The Commission's December 28, 2000, Order did not provide for the implementation of wires charges on an interim basis.[7] Virginia Power represented by letter of counsel dated January 4, 2001, that if permitted to implement its proposed adjustment to its wires charges effective January 1, 2001, the Company would not thereafter object to any modification to the wires charges the Commission may find necessary based on determinations in Case No. PUE000585. The Company also agreed with the Commission that the wires charges adjustment mechanism set out in Code § 56-583 does not apply in the context of the Pilot Program, so that the wires charges may be adjusted in this instance.

[7] Unlike the fuel factor, which contains a correction factor that permits any over- or under-collection to be adjusted in later filings, the wires charges have no correction mechanism and may be adjusted no "more frequently than annually" pursuant to § 56-583 of the Code.

Believing this to provide adequate protection for customers, we therefore permitted on January 9, 2001, the implementation of the increase in wires charges on an interim basis and subject to further modification.

On January 30, 2001, the OAG and the Company filed comments on the issue. Also on January 30, 2001, the Commission received comments and a request for hearing in Case No. PUE980813 from Michel A. King. The Commission determined that the issues raised by Mr. King would be best handled during the fuel factor hearing in Case No. PUE000585. We therefore ordered on February 14, 2001, that a hearing on the implementation of the wires charges be consolidated with the fuel factor hearing in Case No. PUE000585 scheduled for April 3, 2001, and that the procedural schedule issued in that proceeding apply to Case No. PUE980813. Neither Mr. King nor Commission Staff prefiled any testimony in Case No. PUE980813 on the wires charges issue. On March 28, 2001, Virginia Power filed testimony in which the Company adopted its comments on proposed changes to wires charges filed January 10, 2001.

CONSOLIDATED HEARING

On April 3, 2001, a hearing on both Case Nos. PUE980813 and PUE000585 was convened.[8] Although there was no disagreement as

[8] Karen L. Bell, Edward L. Flippen, and Kodwo Ghartey-Tagoe appeared on behalf of the Company; William H. Chambliss and Katharine A. Hart on behalf of Commission Staff; Michael E. Kaufman on behalf of Chaparral; Robert M.

to Virginia Power's estimated costs and proposed 2001 fuel factor, several parties expressed concern regarding the off-system sales numbers proposed by the Company in this proceeding potentially being used in the Company's functional separation case, Case No. PUE000584.[9] All parties agreed that, with respect to off-system sales, the current proceeding should not serve as precedent in the functional separation case.

Throughout the course of the hearing, concerns were expressed regarding two categories of the Company's wholesale sales, off-system sales, and out-of-system sales, as well as the matter of options trading activities engaged in by the Company's Wholesale Power Group. Commission Staff proposed to conduct a study of such activities, and indicated that after such study, recommendations may be made regarding Virginia Power's Definitional Framework. All parties and Commission Staff agreed to the study with the understanding that any recommendations regarding the Definitional Framework approved by the Commission would apply to the 2001 fuel period and future fuel factors. Should Staff or a party seek to apply any change made to the

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Gillespie on behalf of VCFUR; and John F. Dudley on behalf of the OAG. Michel A. King appeared pro se. The April 3, 2001, proceeding was adjourned and reconvened on April 18, 2001.

[9] Application of Virginia Power for approval of a functional separation plan under the Virginia Electric Restructuring Act, Case No. PUE000584.

Definitional Framework to years prior to 2001, the issue of applicability to previous years will be addressed at that time.

At the conclusion of the hearing, the Commission identified three issues for briefing that remained unresolved among the parties and Commission Staff. First, the parties and Commission Staff were to address the appropriate method of quantifying the fuel costs for Virginia Power to serve Chaparral's load for purposes of the fuel factor. Second, the method for identifying margins associated with sales of capacity freed up by customer participation in the Pilot Program and the appropriate handling of such margins were also to be addressed. Third, the Commission requested briefing on whether the increase in the wires charges, implemented on an interim basis, should continue.

POSITIONS OF THE PARTIES AND COMMISSION STAFF

Quantification of Fuel Costs Associated with the Chaparral Load for Fuel Accounting Purposes

In Case No. PUE990717, the Commission directed Staff to investigate methods for quantifying the fuel costs associated with sales to Chaparral under the Special Contract for fuel factor purposes. As a result of this investigation, Staff filed the Chaparral Study that recommends the use of a back-cast simulation, rather than a forecast, for fuel factor accounting. Staff agrees with the Company that the Special Contract generally provides benefits to the Commonwealth, however, notes that pursuant to § 56-235.2 D of the Code, the Special Contract may not cause higher rates for Virginia Power's other customers. According to Staff, the day-ahead projected hourly system forecast lambda ("forecast lambda") underestimates Chaparral's fuel costs and results in a higher fuel factor for the Company's other customers.

Staff believes that implementing a back-cast for purposes of determining the fuel factor represents the closest possible approximation to Virginia Power's reconstructed "own load dispatch," and would allow the Company to match resources with expenses with the most accuracy. A back-cast, Staff argues, allows model inputs to reflect more actual variables and costs than are possible with the forecast lambda approach.

The Special Contract establishes a price for Chaparral to pay based on forecast lambda, plus a margin. Staff notes that the price charged to Chaparral and the Company's compliance with the Commission's Final Order in Case No. PUE980333 are not at issue. Staff argues that the back-cast is not being proposed as the methodology by which Virginia Power must determine price under the Special Contract. The Staff's argument is that the back-cast provides the best estimate of Chaparral fuel expenses for purposes of the fuel factor.

Virginia Power states that in Case No. PUE980333 the Company made clear that it intended to use forecast lambda for

Chaparral fuel accounting purposes. The Company argues that the Commission's approval of the Special Contract is evidence that the Commission, considering this intention, determined that the Special Contract would not harm the Company's other customers. To now require the Company to change its methodology for calculating fuel costs for purposes of the fuel factor, the Company argues, would be unfair and should be rejected.

The Company also argues that the back-cast is inappropriate because it is nothing more than an estimate itself and is no better than using the forecast lambda. Virginia Power states that forecast lambda, on the other hand, is appropriate for determining fuel costs for fuel accounting purposes because it is based on the pricing mechanism specified in the Special Contract. Also, since the Special Contract precludes an after-the-fact verification or true-up, the Company asserts fuel costs must be determined on a day-ahead basis, not by a back-cast.

Virginia Power further argues that, contrary to Staff's assertions that the back-cast would not affect the terms of the Special Contract, use of the back-cast would reduce the margins received from Chaparral sales. The Company alleges that, by incorporating new costs not included in forecast lambda and so attributing greater costs to Chaparral than the Company recovers, the price component of the Special Contract would be undermined. Virginia Power represents that this is a significant modification of the bargain made between Virginia Power and Chaparral. By recovering a lower margin, the Company believes a critical component of the Special Contract, the price term, is undermined and that the Company would have to consider renegotiation.

Chaparral argues that Staff should be estopped from challenging the fuel accounting methodology in this matter because Staff had previously made its reservations over forecast lambda known, and is now raising the issue again. Chaparral further argues that Staff presents no conclusive evidence to indicate that Virginia Power is undercollecting and presents no conclusive evidence to support the back-cast method, and that an absolute determination of actual fuel expenses associated with serving Chaparral can not be made in any event. Discounting assertions by Staff that the Special Contract will not be affected by implementation of its recommendations, Chaparral alleges that the substantial direct and indirect economic benefits that Chaparral brings to Virginia would be put in jeopardy. However, Chaparral emphasizes that the Chaparral Study states that the special contract prices charged by Virginia Power to Chaparral are not at issue here, and notes that Staff's recommendation should have no effect on the electricity prices that Chaparral pays as set forth in the Special Contract.

Methods for Calculating Margins Associated with Displaced Pilot Sales

The Commission Staff and Virginia Power urge the Commission to adopt the method for identifying Displaced Pilot Sales proposed by the Displaced Pilot Sales Report, and to incorporate the suggestion of Virginia Power on the starting point for this methodology. Both argue that this margin determination and separation allows for accurate fuel factor determination consistent with the Definitional Framework.[10]

Michel A. King argues that the Company's retaining of 100% of the margins associated with displaced pilot sales would, when combined with the implementation of an increase in the wires charges discussed further below, result in double recovery of fuel costs attributable to Displaced Pilot Sales. Mr. King expresses concern that if the Company collects wires charges at the same time as it collects a positive margin from Displaced Pilot Sales, the Company is recovering the same costs through two independent recovery mechanisms. Virginia Power argues that Mr. King's objection to the Company's retention of the margins is too late, as the Commission approved this retention in Case No. PUE990717.

[10] The Company's Definitional Framework was amended in Case No. PUE990717 to state that no energy margin associated with the sale of the Displaced Pilot Sales should be credited against fuel factor expenses.

Implementation of Wires Charges Increase

Virginia Power urges the Commission to allow the interim increase in the wires charges be made permanent. Pursuant to § 56-584 of the Code, wires charges are a method through which incumbent electric utilities may recover their just and reasonable stranded costs. Pursuant to § 56-583 of the Code, wires charges are equal to the difference between the capped generation rate and the projected market price for generation, when the capped generation rate exceeds the market price. Virginia Power states that revenue from the proposed increase in the wires charges corresponds directly to an increase in the Company's costs.

The Company notes that, because the fuel factor is included in capped generation rates, an increase in its fuel factor would increase its capped generation rates. Noting that the Commission set the projected market price for generation for the duration of the Pilot Program, Virginia Power argues that to be consistent with the formula provided in § 56-583 of the Code and the Commission's directive on the projected market price for generation, an increase in capped generation rates would result in an increase in the wires charges. If the wires charges are not increased, the Company argues it would underrecover its stranded costs. Virginia Power believes that the Commission should coordinate changes in wires charges with changes in capped rates as provided by § 56-583 of the Code.

Michel A. King argues in his brief that an increase in the wires charges is unreasonable and unjust because the Company no longer faces net stranded costs that exceed zero value in total as required by § 56-584 of the Code, and because, in conjunction with retaining margins from Displaced Pilot Sales, such wires charges would result in double recovery. Mr. King argues that if the Company is projecting a positive margin on its Displaced Pilot Sales, the revenues from such sales must exceed the costs and so the net stranded costs must be less than zero value in total. Mr. King believes that since the Company now expects to see profits from off-system sales, it should therefore be ordered to reduce the wires charges to zero and refund any wires charges already collected. Mr. King further states that it is not reasonable to seek an adjustment in wires charges based on changes in projected cost factors, such as the fuel factor, without giving consideration to changes in projected revenue factors, such as the projected market price for generation.

Staff submits that it believes that § 56-583 of the Code does not necessarily compel the increase in wires charges as the increase in the fuel factor is implemented, but that the adjustment may be permitted in this proceeding. Staff notes that the Commission set the market price for the duration of the

Pilot Program, and that there is no evidence on which a change in projected market price may be based. Staff argues that wires charges may be adjusted so as to equal capped generation rates, which will increase, minus the Commission determined projected market price for generation, which will remain the same.

Beginning with customer choice, however, Staff asserts that adjustments may take place no more frequently than annually pursuant to § 56-583 of the Code, even though under § 56-582 of the Code, the Commission may adjust capped generation rates, under certain circumstances, more than once a year. Staff believes that it should therefore be noted that a change in capped generation rates does not necessarily require an automatic corresponding adjustment in wires charges. Like Virginia Power, to mitigate the over- or under-collection of charges by the utilities, Staff believes that the Commission should coordinate changes in capped generation rates with changes in the market price for generation as provided by § 56-583 of the Code.

NOW UPON CONSIDERATION of the foregoing and the applicable law, we are of the opinion that the requested increase in the Company's fuel factor from 1.339¢ per kWh to 1.613¢ per kWh effective with usage on and after January 1, 2001, should be approved, but that the off-system sales amount and methods associated with determining such amount for the Company's 2001 fuel factor shall not serve as precedent in Case No. PUE000584, the Company's functional separation case. In addition, we find that we should adopt the methods set out in both the Chaparral Study and the Displaced Pilot Sales Report. We direct Staff to work with the Company on the narrow issue contained in the former of appropriately quantifying and removing nonfuel variable costs from the back-cast method. We adopt the latter with the modification as proposed by Virginia Power. We also allow the increase in wires charges to continue.

The Chaparral Special Contract states that the price Chaparral pays for electricity will be based on forecast lambda, and contains a clause stating that firm pricing supplied to Chaparral will not be subject to an after-the-fact true-up of any kind. Virginia Power's primary argument for the use of forecast lambda in the fuel factor is that this method was approved by the Commission for calculating price in the Special Contract, and that the Company intended to also use forecast lambda for fuel accounting purposes, and that this therefore equates to approval of a method for determining fuel costs associated with Chaparral for the fuel factor.

Concerning the Chaparral Study, we are not unmindful of our previous approval of the Special Contract between Virginia Power and Chaparral. However, the Special Contract did not address the matter of how the fuel expenses of serving Chaparral would be separated from Virginia Power's other fuel expenses for purposes of the fuel factor; that issue was not before us in the case in which the Special Contract was approved. When we approved the Special Contract, we were not asked to approve a specific fuel factor accounting treatment that, as required by § 56-235.2 D of the Code, would ensure that other ratepayers would not be asked to pay fuel costs caused by the addition of Chaparral's load. Because this issue remained outstanding, we ordered Staff in the Company's last fuel factor case, Case No. PUE990717, to investigate methods for quantifying fuel costs associated with the Chaparral sales.

The Staff complied with this directive by filing the Chaparral Study and recommending the back-cast method. The back-cast method, like forecast lambda, utilizes a production cost simulation. To develop forecast lambda, the simulation uses inputs that are estimates of the following day's expected resource availability, dispatch costs, and load requirements. The back-cast uses the same production simulation method but, since it is being run ex post, includes more known variables such as the weather, market conditions, and the actual availability of each resource. The back-cast also accounts for start-up, shut-down, and no-load carrying costs, which are left out of forecast lambda. These costs are real; if they are not allocated to Chaparral then they will be paid by the remaining ratepayers via the fuel factor.

Virginia Power asserts that it is inappropriate to use the back-cast method because this method accounts for these new costs, specifically, the start-up and shut-down costs and no-load carrying costs that are not included using forecast lambda. We find the label "new costs" to be a misnomer. Fuel expenses associated with unit start-up and shut-down and those associated with keeping a unit online and operating at a reduced output so that it will be available to serve load in the future are expenses that regularly have been a part of the fuel factor. To the extent that these costs are not a consideration in forecast lambda, then that method is an even less accurate indicator of true fuel costs. Since the back-cast accounts for these expenses, it is more accurate in that regard. In fact, the Company itself uses the back-cast to quantify the cost of off-system sales for purposes of determining the fuel factor.

In this proceeding, our focus is upon the quantification of fuel costs attributable to Chaparral to assure that Virginia Power's other ratepayers are held harmless from any fuel expenses the Company incurs to serve Chaparral.[11] The costs

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[11] "[W]e believe that the General Assembly intended an absolute prohibition on the approval of any special rate, contract or incentive if, as a result of such approval, the utility's existing customers would be caused to bear increased rates." 1999 S.C.C. Ann. Rept. at 423.

attributable to Chaparral must be removed from the rest of the fuel factor, and so we must establish the most accurate method to determine the fuel cost of serving Chaparral. The quantification of Chaparral fuel costs is distinct from whatever price Chaparral may have contracted to pay to Virginia Power for electricity.[12] The Special Contract does not control fuel factor accounting treatment and does not prohibit the Company from using the back-cast to allocate fuel costs for fuel factor purposes. We find that, because it allows for the greatest possible input of known variables and includes more fuel factor cost elements, the back-cast is the most accurate method among

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[12] Virginia Power recognized this point in commenting on a proposal made in Case No. PUE990717, the case in which the allocation of fuel costs associated with serving the Chaparral load for fuel factor purposes first arose. In its post-hearing brief filed in that case, disagreeing with VCFUR's argument that the Company should assign incremental fuel costs rather than average fuel costs to GS-3 and GS-4 customers receiving service under the RTP schedule, Virginia Power stated:

> *Importantly, § 56-235.2 does not require a specific linkage between the Chaparral pricing mechanism and the fuel accounting treatment for service to Chaparral.* The Company and Chaparral could have developed a pricing mechanism that did not include system lambda as a component but still assigned incremental fuel costs to Chaparral to protect other ratepayers. For example, knowing that Chaparral needed some form of a rate incentive relative to traditional rates, the Company could have simply priced the Chaparral contract based on a discounted traditional GS-4 rate …. Even a discounted GS-4 pricing approach, however, would not justify average fuel factor treatment for Chaparral…. *Indeed, regardless of the pricing or rate design for Chaparral, § 56-235.2 requires the Company to credit fuel factor expenses based on the incremental fuel cost associated with Chaparral to ensure that other customers are not harmed.*

Post-Hearing Brief of Virginia Electric and Power Company, filed in <u>Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Va. Code §56-2496</u> Case No. PUE990717, Doc. Cont. Cntr. No. 000320154 at 14 (March 9, 2000) (emphasis added).

all methods advocated, and therefore should be used for quantification of the fuel factor. As discussed in the Chaparral study, Staff shall seek to ensure that all non-fuel variable costs are removed from the quantification.

Regarding the increase in wires charges, we believe that Mr. King raises a legitimate point when he argues that the fuel price increases which support the increase in the fuel factor in this proceedings, may also result in an increase in the market price for generation, and that consideration must be given to both changes in capped generation rates and the market price for generation when adjusting the wires charges.

As noted, pursuant to § 56-583 of the Code, wires charges are equal to the difference between the capped generation rate and the projected market price for generation. In this proceeding, we have concluded that the capped generation rate will rise based on an increase in the fuel factor. However, no determinations have been made on any changes that may be required in the projected market price for generation. It is unknown whether the market price for generation has risen, fallen, or remained the same as fuel prices have increased. Changes in the market price for generation are driven by more than changes in the fuel costs of one utility, and other considerations must be made in addition to an increase in the fuel factor when addressing the appropriate projected market price for generation. The record in this proceeding does not contain any evidence upon which any new projected market price for generation could be implemented. Without a change in the projected market price for generation, given the formula provided by § 56-583 of the Code, the wires charges should increase. Therefore we will order that the wires charges increase correspondingly with the increase in the fuel factor.

In an effort to manage effectively future adjustments in wires charges, on June 13, 2001, we opened Case No. PUE010306 to assist us in identifying and resolving issues regarding the statutory obligations of § 56-583 of the Code.[13] Among other things, we are seeking input on the timing of a change in the fuel factor, and consequently capped generation rates, as it relates to the Commission's determination of the projected market price for generation. In future proceedings, it is advisable that parties seek to coordinate changes in the wires charge with adjustments to both capped generation rates and the projected market price for generation. Such coordination is imperative to ensure that the wires charges are calculated

[13] Commonwealth of Virginia ex rel. State Corporation Commission Ex Parte: In the matter of considering requirements relating to wires charges pursuant to the Virginia Electric Utility Restructuring Act, Case No. PUE010306.

accurately, and to meet the requirement that wires charges adjustments occur not more frequently than annually.[14]

Accordingly, IT IS ORDERED THAT:

(1) The total fuel factor of 1.613¢ per kWh, effective for usage on and after January 1, 2001, established by Commission Order December 8, 2000, remains in effect.

(2) The Staff's recommendations for quantifying fuel costs associated with serving Chaparral (Virginia) Inc. using the back-cast methodology, as set forth in the Chaparral Special Contract Fuel Factor Impact Monitoring Study, hereby is adopted for immediate implementation. Further, Staff, with the assistance of the Company, is directed to review all prior periods during which Chaparral purchased electricity from Virginia Power under the Special Contract and to determine the fuel costs of the Chaparral load using the back-cast as closely as can reasonably be determined or estimated. Any resulting necessary adjustments shall be made appropriately via the correction component of the fuel factor, throughout the twelve (12) months of 2002 or such other period as the Commission may determine.

[14] Although adjustments to the wires charges were made administratively on December 22, 2000, to reflect the elimination of gross receipts taxes and the implementation of state income taxes effective January 1, 2001, the Company agreed that prior to the implementation of customer choice on January 1, 2002, the wires charges could, in the context of the Pilot Program, be adjusted more than once in a year.

(3) The Staff's recommendations for determining the costs and margins associated with sales of capacity and energy made available to Virginia Power by customer participation in the Company's retail access pilot program, as set forth in the report on Fuel Accounting for Sales Displaced in Retail Access Pilot, hereby are adopted, with the modification as proposed by Virginia Power and agreed to by Staff at the hearing.

(4) The previously ordered increase in the wires charges to reflect changes in the capped generation rate caused by the interim increase in the fuel factor shall continue.

(5) Pursuant to the conditions agreed to by the parties during the course of the hearing as described herein, the Staff shall perform a study of the Company's wholesale sales, off-system sales, out-of-system sales, options trading, and other related activities, and shall file a report detailing its findings and recommendations. Any recommendations made by Staff regarding the Company's Definitional Framework shall apply to the 2001 fuel period and future fuel factors. Should, in a future proceeding, Staff or a party seek to apply any changes made to the Definitional Framework to the fuel periods prior to 2001, the issue of applicability will be determined at that time.

(6) This matter is continued generally.